

Message Text

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E.O. 11652: N/A

TAGS: EFIN, NL

SUBJECT: ZIJLSTRA ON DUTCH ECONOMY

1. SUMMARY: AN INFLUENTIAL VOICE, THAT OF NETHERLANDS
CENTRAL BANK PRESIDENT ZIJLSTRA, IS CAUTIONING AGAINST TOO
OPTIMISTIC AN ASSESSMENT OF THE ECONOMIC RECOVERY TAKING PLACE
IN THE NETHERLANDS, AND URGING THE GOVERNMENT TO GIVE RELIEF
TO THE PRIVATE SECTOR EVEN AT THE COST OF ADDING TO THE
GOVERNMENT'S DEFICIT. END SUMMARY.

2. IN HIS ANNUAL REPORT, ISSUED APRIL 27, NETHERLANDS BANK
ZIJLSTRA SAYS THAT PROFITS OF DUTCH INDUSTRY WERE
HIT SO HARD BY THE DOWNTURN IN 1975 THAT IT IS QUESTIONABLE
WHETHER COMPANIES WILL WISH TO MAKE INVESTMENTS IN THE
SHORT TERM. HE THEREFORE URGES THE GOVERNMENT TO STIMULATE
EMPLOYMENT BY TAKING STRONG MEASURES TO IMPROVE PROFITS AND
TO CURB INFLATION. HE TERMS INADEQUATE THE GOVERNMENT'S
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PLAN TO IMPOSE A ONE PERCENTAGE POINT LIMIT BEGINNING

NEXT YEAR ON THE GROWTH OF THE COLLECTIVE SECTOR AS A SHARE OF NATIONAL INCOME, AND SUGGESTS A LIMITED AND TEMPORARY INCREASE IN THE GOVERNMENT'S DEFICIT IN ORDER TO STIMULATE INVESTMENTS.

3. ZIJLSTRA AGREES WITH THE ALMOST UNIVERSAL OPINION THAT THE ECONOMY IS RECOVERING FROM ITS WORST POSTWAR RECESSION, BUT SAYS THAT THE UPTURN WILL HAVE ONLY A LIMITED EFFECT ON UNEMPLOYMENT (WHICH NOW STANDS AT 5.4 PERCENT OF THE WORKFORCE) SINCE FIRMS HAVE NOT LAID OFF WORKERS TO THE SAME EXTENT AS THEY HAVE CUT BACK PRODUCTION.

4. ZIJLSTRA ALSO WARNS AGAINST THE CONTINUING DANGERS OF INFLATION. IN ORDER TO LIMIT WAGE INCREASES THIS YEAR TO BETWEEN 8.5 AND NINE PERCENT, AS DESIRED BY THE GOVERNMENT, ZIJLSTRA RECOMMENDS THAT THE GENERAL COST OF LIVING ADJUSTMENT FOR WAGE EARNERS SCHEDULED FOR JULY 1 BE POSTPONED UNTIL THE END OF THE YEAR.

5. BOTH TRADE UNIONS AND EMPLOYERS FEDERATIONS HAVE WELCOMED ZIJLSTRA'S ANALYSIS.

6. COMMENT: IN OUR LATEST ECONOMIC TRENDS REPORT (THE HAGUE A-45, APRIL 14), WE POINTED OUT THAT THE DUTCH ECONOMY IS BOUNCING BACK FROM THE CYCLICAL BOTTOM WHICH IT HIT IN MID-1975, BUT THAT UNEMPLOYMENT WILL DECLINE SCARCELY, IF AT ALL, FROM THE CURRENT POSTWAR HIGH OF 5.5 PERCENT AND THAT INFLATION WILL MODERATE ONLY SLIGHTLY FROM LAST YEAR'S 10 PERCENT. THE GOVERNMENT IS AWARE THAT OVER THE LONGER TERM INFLATION AND THE SQUEEZE ON BUSINESS PROFITS WILL KEEP UNEMPLOYMENT HIGH. AS A MEANS OF COMBATTING THE RISING COST OF LABOR, THE GOVERNMENT IS HOPING TO KEEP AN 8.5 TO NINE PERCENT LID ON WAGE INCREASES IN 1976. THE FOUNDATION OF THE GOVERNMENT'S ECONOMIC PROGRAM, HOWEVER, IS THE IMPOSITION OF AN AVERAGE ONE-PERCENTAGE-POINT-A-YEAR LIMIT ON THE GROWTH OF THE COLLECTIVE SECTOR AS A SHARE OF NATIONAL INCOME FROM 1977 UNTIL 1980. EVEN AS GOVERNMENT MINISTRIES WORK TO TRIM THE SIZE OF THEIR 1977 BUDGETS TO KEEP WITHIN THE ONE PERCENT NORM, THERE LIMITED OFFICIAL USE

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ARE QUESTIONS WHETHER THIS IS ENOUGH. ECONOMICS MINISTER LUBBERS HAS BEEN PUSHING IN ADDITION FOR SOME RELIEF FOR BUSINESS, BUT FACES POSSIBLE RESTRAINT FROM DUISENBERG, WHO IS DETERMINED THAT THE BUDGET DEFICIT NOT EXCEED FIVE PERCENT OF GNP. SUPPORT FOR A LIMITED AND TEMPORARY INCREASE IN THE DEFICIT, COMING AS IT DOES FROM THE HEAD OF THE CENTRAL BANK, MAY HELP TO PERSUADE DUISENBERG TO ACCOMMODATE LUBBERS' WISHES.

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